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Monthly Letter

Business and Economic Conditions

General Business Conditions

New York, May 1961

THE business news of recent weeks confirms the feeling that the declining phase of the recession ended with the first quarter. Although, as the following article brings out, the squeeze on profit margins persisted, signs of a turn in the tide appeared from many sides. Orders and shipments, production and trade, employment and income have all picked up.

It would be premature, however, to assume that recession problems are all behind us and that a rapid climb lies ahead. Unseasonable weather has played havoc with sales projections in many lines, which makes evaluation of performance difficult. Inventory adjustment, by most reports, is far from complete. Uncertainties created by the conflicts in Laos and Cuba cloud the outlook.

The mildness of the decline and the extent of recovery as of March are demonstrated in the following table. Evidence of improvement is not confined to the indicators shown there; increases over recession lows have also been registered by such varied measures as steel production, construction expenditures, and money supply. Such figures as are available suggest that the upturn gained breadth during April. For example, the daily rate of automobile production, which was still declining in March, turned up markedly.

As in the three previous recessions since World War II, personal income and total employment held up well. Both had virtually regained their peaks by March 1961. To be sure, the stability of total employment conceals substantial shifts; a rise in white-collar jobs offset a drop in factory jobs and other manual work. Similarly, the stability of personal income resulted from the netting out of declines in wages and salaries against increased unemployment insurance, social security benefits, and other transfer payments. In fact, half the 0.8 per cent recovery in personal income during March was a statistical quirk, reflecting the accelerated payment of $150 million of veterans life insurance dividends. This will be absent from the April totals, but by then the temporary extension of unemployment benefits will begin to be felt.

Recession and Recovery in Business Indicators

Indicator	Decline from 1960 peak to low	Low month	Increase from low to March 1961
Personal income	— 0.9%	Feb. '61	+ 0.8%
Total employment	— 1.1	Oct. '60	+ 1.0
Industrial production	— 8.2	Feb. '61	+ 0.5
Average factory work week	— 5.2	Dec. '60	+ 2.6
New orders, durable goods	—13.0	Jan. '61	+ 4.8
Retail sales	— 6.0	Jan. '61	+ 1.8
Private housing starts	—28.4	Dec. '60	+31.1
Raw ind. commodity prices	—10.6	Dec. '60	+ 8.9
Industrial stock prices	—14.9	Oct. '60	+24.0

Sources: Federal Reserve Board, Departments of Commerce and Labor, Standard and Poor's Corporation. Figures are based on seasonally adjusted monthly data, except commodity and stock prices which are unadjusted daily data.

The uneven impact of these shifts in employment and income may help explain the larger drop and slower recovery in retail trade. Easter sales at department stores were somewhat lower than in the 1960 season, thus disappointing those

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retailers who hoped to match last year's figures despite the recession.

By the measurement of the Federal Reserve Board's seasonally adjusted index (1957=100), industrial production touched bottom in February at 101.9 and began to edge up in March with further improvement indicated for April. The mildness of the total drop in industrial production, 8.2 per cent measured from the January 1960 high, is evidenced in the fact that even at its February low the index was as high as at the 1957 cyclical peak.

A Turnabout in Buying Policy

A signal of business revival has been provided for some weeks now by a rise in new orders placed with durable goods manufacturers. The decline in orders for durables was reversed in February by a spurt of defense ordering. Defense contracts receded in March and the further increase in durable goods orders was the result of stepped-up buying of basic and fabricated metals by private industry. In both months, new orders exceeded shipments, giving a boost to backlogs of unfilled orders, which, if past experience is any guide, foreshadows an increase in production.

Comments by corporation executives and reports by purchasing agents indicate that the expansion in new orders has persisted. In many cases, this represents the completion of that phase of the inventory cycle in which stocks of materials and commitments for future purchases are worked down. Once a satisfactory level has been achieved—and a majority of purchasing agents report that it has—a step-up in ordering is usually needed just to maintain that same level of stocks. Inventories are still being watched closely, but firms all along the line appear to be gearing orders more closely to current production and sales and are less inclined to sell off the shelf.

For example, although metalworking activity generally continued to edge lower through March, order backlogs for steel have been increasing since last December, and the mills have been lighting additional furnaces with each passing week. From the December low, equivalent to an annual rate of 69 million tons a year, steel production by late April had swung back to 93 million tons a year, the best level in eleven months.

Steel was about the first big industry to feel the impact of cautious buying policies among its customers and again among the first to enjoy a pickup in buying as users reached the practical limits of inventory curtailment. Among manufacturers more generally, the decline in inventories, as measured by seasonally adjusted data of the U.S. Department of Commerce, has slowed month by month since the year end.

Book value of stocks of purchased materials and goods in process, which had dropped by nearly $2 billion in the second half of 1960, was approximately unchanged in January and February. The further decline in factory inventories in early 1961 was concentrated in stocks of durable finished goods; the same held true for retail inventories.

New passenger car stocks were reduced substantially in March and April as sales turned up briskly. New car sales in the first quarter fell 20 per cent short of the initial three months of 1960, but manufacturers have good reason now to hope that sales for the balance of the year will measure up more favorably against 1960 figures. With curtailment of production, dealers' stocks had been cut below a million in March, and sales improvement required increased assembly operations in April.

GNP on the Upgrade

The gross national product (GNP), as presently estimated by the Council of Economic Advisers, slipped to an annual rate of $499.5 billion in the first quarter, 1 per cent below the record second quarter 1960 rate of $505.0 billion. The emerging view is that the low point is past and that the GNP will trend higher as the year progresses. The most popular guess for the fourth quarter seems to be about $520 billion a year.

The first quarter decline was attributable to accelerated inventory liquidation and some softening of final demand. During 1960, the shift from accumulation to liquidation of inventories, which cut demand for goods from that source by over $14 billion, was approximately offset by the rise in final demand from consumers, business, and government. In the first quarter of 1961, inventory reduction speeded to a $4.5 billion annual rate from $3.0 billion in the fourth quarter of 1960. Also tending to reduce the GNP were lower levels of consumer purchases of durable goods, residential construction, and business capital investment. However, consumer services, net exports, and government purchases continued to expand in the first quarter, as indeed they have done all through the recession.

In the current quarter the GNP is being bolstered by better final demand and a lightening of the drag of inventory liquidation.

The relative mildness of the recession, pointed out in a speech by Treasury Secretary Douglas Dillon on April 21, is requiring some agonizing reappraisal by people who, earlier in the year, were deploring the business situation as the

worst since the Great Depression. Questioning the fashionable neo-stagnation theory, Dr. Arthur F. Burns, speaking in the perspective of his life-long study of business cycles, concludes from the mildness of the recession that "the underlying forces of economic expansion are strong."

First Quarter Corporate Earnings

Reports for the first quarter issued to date indicate continuing erosion of profits. This bank's tabulation for 692 nonfinancial corporations shows combined after-tax income of $2.1 billion, 15 per cent below the preceding quarter and off 19 per cent from the year-earlier period.

In the manufacturing group alone, reports of 539 companies show aggregate net income of $1.6 billion, a decrease of 14 per cent from the fourth quarter and a 22 per cent shrinkage from the March quarter of 1960. Five out of eight manufacturers had lower profits than a year ago.

The drop in over-all earnings largely reflects the progressive squeeze on profit margins, intensified by the recession in sales. For 411 manufacturing companies reporting sales figures, first quarter billings fell by about 9 per cent from a year ago as three out of five firms posted declines. The average net margin on sales narrowed from 6.5 to 5.1 per cent.

The deepest declines in profits from the previous year were concentrated in the durable goods industries, which have borne the brunt of the business downturn. Among the hardest hit were the auto and steel industries, whose profits bore only faint resemblances to first quarter 1960 results. With the recession making deep inroads in passenger car sales, the auto companies assembled 41 per cent fewer cars in the March quarter than they did a year ago. The cutback by Detroit also left its imprint on sales and earnings in a number of other industries, including tires, glass, steel, textiles, and plastics.

Partly reflecting the delayed wage increase resulting from the last strike settlement, seven of 25 reporting steel firms showed deficits for the quarter. Slower sales and price competition trimmed earnings in the electrical and chemical industries. Performances in nondurable goods lines were generally less affected by the business downturn. Companies in the food, beverage, drug, soap, and cosmetic fields came close to matching their year-ago earnings, while tobacco firms continued to show year-to-year increases.

The petroleum group posted gains over a year ago as a cold winter helped heating oil sales and the industrial boom abroad raised foreign earnings. Better sales overseas also figured in the improved showing of machinery producers. Reduced write-offs for jet airliners, and military deliveries, lifted earnings of aircraft producers.

Utility companies supplying telephone, electricity, and natural gas continued to post moderate gains. Retailers generally ran behind their year-earlier results, but the service and amusement group forged ahead. Railroads, whose 1960 earnings were the poorest since 1949, ran into red ink in the first quarter.

NET INCOME OF LEADING CORPORATIONS FOR THE FIRST QUARTER
(Dollar Figures in Thousands)

No. of Cos.	Industry Groups	Reported Net Income After Taxes: First Qtr. 1960	Fourth Qtr. 1960	First Qtr. 1961	Per Cent Change From: First Qtr. 1960	Fourth Qtr. 1960
41	Food products and beverages	$ 67,249	$ 78,948	$ 66,242	— 1	—16
8	Tobacco products	55,188	67,313	59,575	+ 8	—11
31	Textiles and apparel	29,402	29,274	18,594	—37	—36
8	Tires, rubber products	26,227	22,626	16,805	—36	—26
24	Paper and allied products	37,944	36,668	33,634	—11	— 8
33	Chemical products	226,683	188,183	180,377	—20	— 4
31	Drugs, soap, cosmetics	106,355	104,903	104,094	— 2	— 1
32	Petroleum producing and refining	343,769	406,023	402,500	+17	— 1
35	Cement, glass, and stone	73,113	76,478	46,226	—37	—40
25	Iron and steel	259,014	100,393	67,103	—74	—33
28	Electrical equip., radio and television	92,522	64,764	66,700	—28	+ 3
36	Machinery	74,702	73,959	87,046	+17	+18
17	Nonferrous metals	58,563	53,901	45,394	—22	—16
89	Other metal products	94,040	94,328	75,765	—19	—20
25	Automobiles and parts	360,278	282,247	194,691	—46	—31
23	Other transportation equipment	30,391	38,758	38,091	+25	— 2
53	Miscellaneous manufacturing	67,546	90,968	49,775	—26	—45
539	Total manufacturing	2,002,986	1,809,734	1,552,612	—22	—14
17	Mining and quarrying	25,827	26,535	23,210	—10	—13
31	Trade (retail and wholesale)	30,293	46,735	28,921	— 5	—38
22	Service and amusement industry	17,203	16,766	21,136	+23	+26
35	Railroads	63,415	107,854	D—22,734	—..†	—..†
44	Electric power, gas, etc.	209,604	170,856	219,837	+ 5	+29
4	Telephone and telegraph	308,513	340,122	326,899	+ 6	— 4
692	Total	$2,657,841	$2,518,602	$2,149,881	—19	—15

† Increases or decreases of under 0.5% or over 100% not shown.

The Revised 1962 Budget

A month ago the Administration presented to the Congress revised budget estimates which for the first time put price tags on the rapid sequence of proposed additions to federal spending. In terms of the administrative budget, expenditures for fiscal '61, which President Eisenhower had hoped to hold below $79 billion, have been raised to $80.7 billion, mainly as a result of a $790 million increase under National Security programs and a $606 million increase for Labor and Welfare. Greater additions are proposed for the following fiscal year ending June 30, 1962. President Kennedy proposes spending $84.3 billion under the administrative budget in that year, up $3.4 billion over his predecessor's plan and $3.6 billion higher than the revised estimate for fiscal '61.

Revised Budget Figures
(in Billions of Dollars)

	Fiscal 1961					
	Admin. Budget			Cash Budget		
	Jan. Est.	Mar. Rev.	Chg.	Jan. Est.	Mar. Rev.	Chg.
Expenditures	$78.9	$80.7	+1.8	$97.9	$99.5	+1.6
Receipts	79.0	78.5	—0.5	99.0	98.5	—0.5
Surp. (+) or Def. (—)	+0.1	—2.2	—2.3	+1.1	—1.0	—2.1

	Fiscal 1962					
	Admin. Budget			Cash Budget		
	Jan. Est.	Mar. Rev.	Chg.	Jan. Est.	Mar. Rev.	Chg.
Expenditures	$80.9	$84.3	+3.4	$101.8	$106.3	+4.5
Receipts	82.3	81.4	—0.9	103.1	102.3	—0.8
Surp. (+) or Def. (—)	+1.5	—2.8	—4.3	+1.3	—4.0	—5.3

A fuller measure of the impact of the Federal Government's financial transactions with the public is provided by the cash consolidated budget which includes the growing amounts channeled through the federal old-age and other trust funds. On this basis, the Administration plans outlays of $99.5 billion for fiscal '61, up $1.6 billion over President Eisenhower's January estimate, and $106.3 billion for fiscal '62, up $4.5 billion over the earlier proposal and a jump of $6.8 billion over the raised estimate for 1961.

The implication of these enlargements of spending is, of course, a swing of the budget from black to red ink. Although Budget Director David E. Bell expressed the opinion that the increases in expenditures could be expected to generate increase in economic activity and hence in tax revenues, the revised revenue estimates actually are slightly lower than those which had been projected by the previous Administration.

The accompanying chart shows the revised budget estimates, on the cash basis, against the background of the experience since 1948. The accelerated increases in outlays and revenues in the 1951-53 fiscal years were attributable to the Korean War. The expenditure and tax cuts put through in 1954 laid the foundation for the 1955-57 business boom. Ever since then, both outlays and the effective tax burden have been pushing relentlessly onwards and upwards. From the low point in fiscal '55, cash payments to the Federal Government have been rising at an average rate of $5 billion a year.

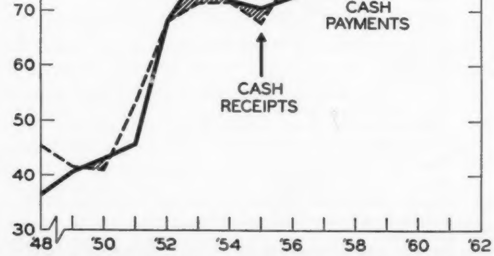
Fiscal '62 Programmed Expenditures
(in Billions of Dollars)

	March revision	Changes from Jan. est.	Changes from fiscal 1961*	Changes from fiscal 1960
Major National Security	$ 48.2	+0.8	+1.5	+2.5
Internat'l Affairs & Finance	2.8	+0.1	+0.4	+1.0
Commerce, Housing & Space	3.8	+0.4	—0.1	+1.0
Agriculture	5.7	+0.6	+0.8	+0.9
Natural Resources	2.2	+0.0	+0.1	+0.4
Labor & Welfare	6.0	+1.3	+0.9	+1.6
Veterans Services & Benefits	5.3	+0.0	+0.1	+0.2
Interest	8.7	+0.1	—0.3	—0.6
General Government	2.1	+0.0	+0.1	+0.4
Trust Funds	26.7	+1.5	+2.1	+4.9
Adjust. for intra-gov't trans., etc.	—5.2	—0.4	+1.2	—0.4
Total Cash Outlays	$106.3	+4.5	+6.8	+12.0

* March revision.

The revised '62 budget proposes outlays under the heading of Major National Security of $48.2 billion, three and a half times the level of the pre-Korean War era. President Kennedy has stepped up the increases proposed by his predecessor, tacking $780 million onto the earlier proposal for fiscal '62, with added emphasis on the Polaris missile programs, development of space weapons, and troop and cargo planes. On the other hand, the new figures cut back military assistance by $100 million in fiscal '62, as well as by $200 million in '61.

The '62 budget estimate for International Affairs and Finance is enlarged $114 million in



Federal Cash Receipts from and Cash Payments to the Public, Fiscal Years 1948-62

the revised budget to \$2.8 billion. Major increases here include funds for the Inter-American Program for Social Progress and for the Chilean reconstruction program, a commitment made by the previous Administration but not specifically provided for in the January budget. Sustained higher levels of financial aids to underdeveloped countries are vigorously advocated.

Accent on Welfare

The biggest single increase in budgeted '62 expenditures is for Labor and Welfare programs, enlarged to the extent of \$1.3 billion over President Eisenhower's January estimate which itself would have set a new record for this category. Labor and Welfare, at \$6 billion, is slated to move up into third position among major administrative budget categories, exceeded only by National Security and Interest on the \$289 billion debt.

Included under Labor and Welfare for '62 is \$500 million for a proposed three-year \$2.3 billion program to help build schools and pay teachers' salaries. Other proposals for federal aids to education would have their main impact on budgets after fiscal '62.

Most government programs tend to cost more money with each passing year. As former Budget Director Maurice H. Stans has pointed out, this is because we legislate on the basis of "no money down, pay later." The adoption of additional programs, albeit involving comparatively small outlays the first year, increases the upward tilt of spending over an indefinite future. At least one major Labor and Welfare program is of a nonrecurring character, namely the temporary extension of unemployment compensation of which \$440 million is expected to be paid out in fiscal '62. This sum is part of a total \$990 million in benefits available to workers whose unemployment benefits have run out since July 1, 1960. The program, which expires in the spring of 1962, is being financed temporarily from the U. S. Treasury, later to be recouped by a 0.4 per cent increase in the unemployment insurance tax levied on employers.

President Kennedy's proposals to liberalize the old-age pension system are reflected in an increase to \$26.7 billion in payments from Trust Funds. These liberalizations, and the proposed addition of medical benefits, would be covered by adding new steps to already-scheduled increases in old-age taxes levied on employers and employes. If the Congress concurs, the total old-age tax will move up from the present 6 per cent to 8 per cent in 1963 and to a top of 10 per cent in 1969.

Agriculture programs, which have been costing more than \$4 billion in each of the past six years, are slated to rise to \$5.7 billion in fiscal '62 (exceeded only by the whopping \$6.5 billion record in fiscal '59). This \$5.7 billion is \$642 million higher than President Eisenhower's January estimate, a difference that is mainly explained by higher price supports for numerous farm products, added funds for surplus food distribution, and enlargement of appropriations to support rural electrification.

Space and Terrestrial Projects

For the weird classification of Commerce, Housing & Space Technology, President Kennedy proposes to add \$443 million to the \$3.4 billion projected for fiscal '62 in the January budget. Expenditures for the National Aeronautics and Space Administration (NASA), pushing beyond a billion for fiscal '62, are expected to shoot still higher in the years ahead. Robert C. Seamans, Jr., Associate Administrator of NASA, testified under questioning by a Congressional committee that a "crash" effort might succeed in landing a man on the moon by 1967 at a cost running between \$20 and \$40 billion.

Whatever the future may hold, terrestrial projects still account for the bulk of Federal Government outlays in Commerce, Housing & Space Technology. The Administration from the outset has placed great stress on stimulation of home building, primarily through creating abundance of credit for mortgage loans. At the same time, however, enlargements are commended for each of eight programs for aids to housing financed through the Federal Treasury, and a new "temporary and experimental" mortgage insurance plan has been proposed without any price tag attached.

Although the '62 budget includes only \$40 million more for "area redevelopment" than President Eisenhower had proposed, long-range plans to aid depressed areas go considerably further. The Area Redevelopment bill, passed by the Congress last month, provides loans and grants to redevelop industrial and rural areas and build power lines, sewers, and other public facilities deemed necessary to promote industrial growth in a depressed area, as well as funds for the construction of new industrial plants, vocational training, and other technical assistance to depressed communities.

In his February 23 Message on Natural Resources, President Kennedy urged more spending for public works with particular reference to water problems of the future, river basin development, and hydroelectric power. Toward the achievement of some of these objectives, *The*

New York Times reported that Interior Secretary Stewart L. Udall had put the design and specification staff of the Reclamation Bureau's Engineering Center in Denver on a six-day, 58-hour week. Nevertheless, President Kennedy's March budget revision added only $24 million to expenditures for Natural Resources as planned in the January budget. As is characteristic of projects of these types, it will be more than a year before plans for substantially enlarged spending will appear in the figures.

Revenue Proposals

In his March 24 Message to Congress on Budget and Fiscal Policy, President Kennedy described his budget as one that "is likely to be in deficit unless economic conditions rapidly improve" but that it "would be in surplus if the economy were operating at or near its full potential." Toward rebalancing the budget he reaffirmed President Eisenhower's earlier request for higher postal rates. To finance enlarged welfare programs, the Congress has already enacted an increase in unemployment insurance taxes levied on employers and, as noted earlier, additional increases in old-age taxes are under consideration.

In his Message on Taxation, April 20, President Kennedy proposed a complex system of tax credits on new investments, in the hope that this can spur industry to expand and modernize. At the same time he urged retention of present income and excise tax rates, extension of the gasoline tax to jet fuels, repeal of the dividend credit and exclusion, a 20 per cent withholding rate on interest and dividends, stiffer administration of business expense deductions, and tightening up on taxation of corporate and personal earnings abroad.

When the whole of the tax program is evaluated, the general effect—despite the investment tax credit proposal—will be to add further to the burdens of taxation on employment, production, and capital formation.

Escapes of income from taxation through unwarranted "loopholes" are certainly to be condemned. On the other hand, most of the so-called loopholes represent specially constructed escapes from an insufferable tax system. It seems fair to predict that the new investment tax credit will one day receive condemnation as still another "loophole." As Senator George A. Smathers of Florida pointed out in a letter to the Secretary of the Treasury: "Whether it is intended to be permanent or not, its very nature makes it so vulnerable to the charge that it is a handout or a giveaway that no reliance can be placed on its continuance."

These controversies over "loopholes" and "giveaways" will continue until basic rate reforms relieve the pressures that create needs for special deductions.

Rate Reform Again Deferred

President Kennedy states that these changes would be a first step only:

> They will be followed next year by a second set of proposals, aimed at thorough income tax reform. Their purpose will be to broaden and unify the income tax base, and to review the entire rate structure in the light of these revisions.

The question is whether we can safely keep putting off the reform question, which has been promised as "the next step" for seven years now. Meanwhile, the Congress will have to decide whether tax changes to bolster initiative and progress are not more vital than some of the proposed new and enlarged spending plans. In the evaluation there should be no shrinking from hard facts. As President Kennedy stated so eloquently ten days ago:

> The complacent, the self-indulgent, the soft societies, are about to be swept away with the debris of history. Only the strong, only the industrious, only the determined, only the courageous, only the visionary who determine the real nature of our struggle can possibly survive.

It is a pity that the tax message was not developed with this in mind. The accent on welfare, the proposals to put still higher taxes on working men, corrode the metal of our society.

Another fact that needs to be faced is that accelerated increase in government spending brings us to the point where there remains no sensible line of retreat from a broad-based federal sales tax. The overburden of income and employment taxes is already threatening to break down the pillars of the present tax system—the morality of some 60 million self-assessing taxpayers. The federal sales tax would be felt in higher prices. But we will get that anyhow as levies on employers and employes are passed on to the broad body of citizens.

It should give pause to advocates of more and more federal spending that the cost of living and federal cash expenditures moved together during the whole decade of the 1950's. It is a fact of record that the only years since World War II when living costs have declined—1949 and 1955—were years that followed retrenchments in government spending and tax cuts.

It is a popular idea that the inflationary influence of increased government spending can be canceled out by tax increases. But this is not the way things work out. When sales taxes are imposed, the relationship of tax to price is direct

and obvious. With income taxes the relationship is more subtle though it exists even so. Taxes are costs to business and to working people. They not unnaturally seek to recover these costs in higher prices and wages. We had a prime example during the Korean War. Income taxes were advanced sharply in an effort to reduce private spending power. For a year federal tax revenues rose faster than expenditures, producing a surplus; nevertheless, we had the steepest rise in the cost of living in any one of the past 13 years. Unless, as in war time, people are ready and willing to tighten their belts, there is no escape from the inflationary consequences of enlarged government spending.

Debt Retirement and Taxation

The idea that the federal budget should be balanced, preferably with periodic surpluses for debt retirement, has a strong hold upon the Congress and people. This conservative view helps to explain the indefinitely continuing postponements of tax rate reforms. As a peculiar consequence, we remain saddled with a tax structure which raises its exactions so fast when the economy expands and grows that expansion and growth are suffocated. Dr. Walter W. Heller, Chairman of the President's Council of Economic Advisers, developed this idea in a statement before the Joint Economic Committee on March 6, introduced into the *Congressional Record* a month later by Congressman Thomas B. Curtis of Missouri. Dr. Heller pointed out how our tax system automatically raises effective tax rates as the gross national product grows even though the rates themselves are left unchanged.

We have had an illustration just within the past 12 months where the economy bogged down into a recession under the weight, among other things, of an effort to develop a $4 billion surplus for debt retirement in fiscal '61. This evidence tends to support Dr. Heller's intimation that we may have a tax structure that makes significant debt retirement impossible. If the surplus is avoided by more spending and cheap credit—as would seem to be the plan—we are likely to pay in price inflation. It would be a wiser course to give spending a rest and the taxpayer a respite. We cannot maintain leadership in the community of nations without the support of fiscal policies which protect the dollar and incentives to productive achievement.

The Unemployment Problem

Amid reports indicative of business improvement, the U.S. Bureau of Labor Statistics released figures showing an 860,000 increase in employment from February to March and a reduction in unemployment from 5.7 million to 5.5 million. These changes were largely of a seasonal nature and Administration spokesmen have continued to express pessimism over their chances of reducing unemployment to what they consider a normal minimum figure of about 3 million or 4 per cent of the labor force. Dr. Walter W. Heller, Chairman of the President's Council of Economic Advisers, on April 4 expressed the opinion that the Administration would be "lucky" to get unemployment down to this level in 1962.

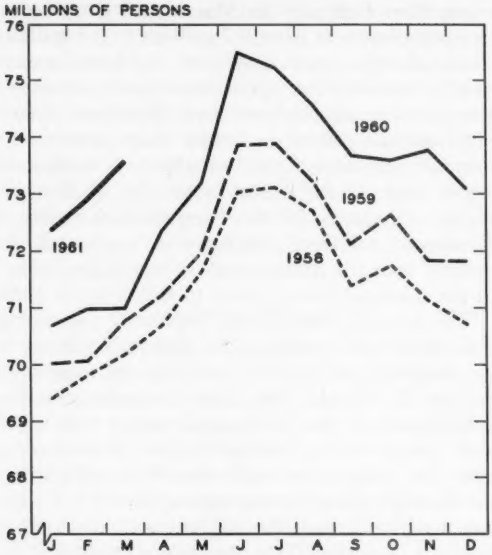
The employment figures represent something of a statistical curiosity. The natural tendency is for employment to rise and unemployment to decline in March. This time, according to the calculations of the BLS, employment rose more than usual while unemployment decreased a little less than usual with the effect of putting the unemployment percentage up to 6.9 per cent, seasonally adjusted, the highest recorded in the business recession. This anomaly is explained by additions to the numbers of people in the market for jobs. As suggested by the charts, the rise in unemployment over the last year is largely accounted for by an accelerated increase in labor force. In March 1961, there were 2½ million more persons in the labor force than a year earlier. This contrasts with an average increase of 800,000 a year in the preceding 10 years.

If the added numbers seeking jobs could be put to work, a large increase in the national production could be achieved, with benefits to all sectors of the economy—government, business, and labor. As Dr. Heller put the case on March 6, testifying before the Joint Economic Committee, the urgent need of the nation is to raise the gross national product, around $500 billion in recent months, by 10 per cent. This gap of about $50 billion, he suggests, could be closed by a reduction of unemployment to 4 per cent, expansion in the labor force, lengthening of the average work week, and increase of productivity at higher operating rates. While statisticians differ on exact figures, there is no question but that the U.S. economy is capable of a better performance.

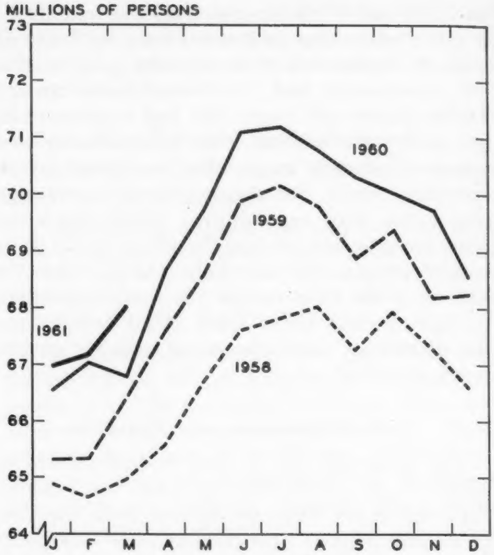
All sorts of proposals are being offered to deal with the unemployment problem. Some of them would give up the goal of enlarging the national production—to Dr. Heller's $550 billion or thereabouts—and provide welfare benefits to help people get along without working or try to spread available jobs by shortening working hours.

Spreading the Work

Both of these approaches have been favored by labor leaders. The Congress has already



Total Labor Force, 1958-61
(Including Armed Forces)



Total Employment, 1958-61
(Including Armed Forces)

acted to enlarge welfare benefits, principally under the Temporary Extended Unemployment Compensation bill, signed by the President on March 24. On the collective bargaining front, union officials are pushing hard for shorter working hours—without reduction in pay. In contract talks last month, the United Rubber Workers, who already have a 36-hour week in Akron, asked for but failed to get a gradual reduction to a 30-hour week. AFL-CIO President George Meany is also calling for a 30-hour work week. David J. McDonald, president of the United Steel Workers, who two years ago suggested a system of sabbatical leaves of absence with pay, is asking Congress for a change in the Fair Labor Standards Act to cut hours from 40 to 32. Walter Reuther, president of the United Auto Workers, advocates gradual reduction in standard working hours, "with no reduction of take-home pay, as technological change accelerates and productivity rises."

Shortened working hours represent an alternative to an enlarged national production except, of course, as people find constructive ways of applying their leisure time. There has been a gradual contraction of working hours over the whole history of the United States, though we have now reached a point where further cuts in working hours might create a situation where ambitious people would expect to hold two jobs in order to enjoy some of the better things in life. This practice has earned a descriptive term—"moonlighting." Surveys by the Census Bureau show that some 3 million workers, or roughly 4 per cent of the labor force, hold more than one job. But as shorter hours encourage more moonlighting, the additional jobs created by attempts to spread the work might be taken up by people already employed in other jobs. If this went far enough, we might have a new kind of unemployment represented in the man who needs two jobs to get along and has only one.

There is little doubt that many people would rather have the greater income. Of course, anyone would be glad to get the same pay for a sharply shortened working week. Yet, for the nation as a whole, it is sheer delusion to think that production would be sustained. Increased hourly employment costs shouldered by employers would have to be passed on in higher prices. Production would be hampered by shortages of personnel with special skills.

At his March 15 press conference, President Kennedy flatly opposed any arbitrary reduction of the work week, expressing the hope that:

> . . . we can have employment high five days a week, and forty hours, which is traditional in this country, and which is necessary if we are going to continue economic growth, and maintain our commitments at home and abroad.

It may also be recalled that in 1957 Vice President Johnson called for lengthening the 40-hour week in order to meet the Russian missile threat. He argued then that "either we tighten the belt around our waist or the Communists will tighten the noose around our throat."

The Welfare Approach

Cutting working hours can create more jobs in the numerical sense without adding to the national production. Another approach to the problem is to put the emphasis on easing the discomforts of unemployment. Under the new unemployment insurance legislation of 1961, the Federal Government plans to disburse $990 million for extended benefits; liberalizations of other welfare programs have been proposed or are being put into effect. These measures, while providing incomes to nonworkers and relieving personal hardships, add nothing to incentives for people to take jobs that are available. With all the discussion of unemployment, it is still true that there are jobs going begging for people willing and able to fill them.

One trouble with excessive emphasis on relief measures for the unemployed is that it leads people to be too choosy about what work they will accept and to wait for something at least as good as their last job to come along. It is not easy to accept demotion voluntarily. Yet, in a changing world, if labor is not to go to waste, it is necessary for people to adjust themselves to circumstances. A good deal of unemployment results from shifting requirements in the market. For example, if the Defense Department wants missiles instead of manned bombers it may mean unemployment for aircraft workers who lack skills for missile manufacturing. As Charles J. Hitch, comptroller of the Defense Department, told the Joint Economic Committee last month, such dislocations, while regrettable, are unavoidable as "one of the prices we must pay for rapid technological progress in weapons."

Then again, unemployment arises out of advances in technology of manufacture. Labor saving through automation is most apt to be sought where the market demand is rising rapidly or where the cost of labor is pushed up by excessive wage demands or restrictive work practices. In the former case—of expanding demand—employment may still increase. In the second—of excessive labor costs—we have a case where people price themselves out of the market. The way this can happen was pointed out by Senator Paul H. Douglas in his book, *The Theory of Wages,* published in 1934:

> Where unemployment is caused by a wage rate which is higher than marginal productivity, a reduction of one per cent in the rate of wages should normally lead to an increase of 3 or 4 per cent in the volume of employment and hence to an increase in the total income of the workers of from 2 to 3 per cent. If wages are pushed up above the point of marginal productivity, the decrease in employment would normally be from three to four times as great as the increase in hourly rates so that the total income of the working class would be reduced in the ratio indicated above.

"Operation Bootstrap"

Then there is the theory that the way to increase employment is to raise wages with the thought that increased spending power of employed persons will enlarge trade and hence employment opportunities. Labor Secretary Arthur J. Goldberg, testifying in favor of the increase in the federal minimum wage, took this point of view when he said that the proposed measure would immediately pump 578 million "high velocity dollars" into the economy. The same approach was expounded by Walter Reuther before the Joint Economic Committee three months ago, when he advocated higher wages and salaries to "raise consumer purchasing power" and "correct the existing imbalance between capacity and demand."

The trouble with this approach is that it does not bother to explain where employers are going to get the extra money to meet added payroll costs. If, as under the NRA Operation Bootstrap in 1933, prices are jacked up along with wages, we have nothing more or less than an outright reduction in the buying power of the dollar. On the other hand, if prices do not move up correspondingly, the profit squeeze on employers is intensified with results of forcing additional layoffs.

In other contexts, trade union officials have displayed some real understanding of the threats to employment, and business survival, that arise out of excessive payroll costs. The February 1961 *Fact Sheet* published by the Industrial Union Department, AFL-CIO, contains the following item:

> The slump in textiles has caused the Textile Workers Union of America to recommend a one-year extension of agreements with woolen and worsted companies and northern cotton-rayon companies. Recommendation to seek extension without change came from 250 delegates at meetings in New York. Delegates representing 45,000 cotton-rayon workers at 190 mills recommended extension after reports from TWUA President William Pollock and cotton-rayon director Victor Canzano. Delegates representing 20,000 woolen and worsted workers in some 75 mills acted after reports from TWUA Secretary-Treasurer John Chupka and woolen and worsted director J. William Belanger.

Improving Labor Mobility

A key ingredient in any formula to accelerate our economic growth and create more jobs is the willingness of workers to learn new skills and to move on to new work opportunities. We cannot expect progress, either for the individual or the nation, if we forever cling to old ways

and familiar places. A dynamic economy requires changing skills and easy mobility.

The restless energy with which the American people sought better opportunities and higher standards of living was a primary source of our unparalleled economic progress in the past. The "old frontier" was not conquered by standpatters and stay-at-homes. We will not be able to move ahead if we encourage people to sit still and wait for government help.

The problem is dramatized by the depressed areas. The Administration-backed bill to help these communities provides some funds for retraining workers. At the same time, the provision of $375 million for grants to build public facilities and loans to finance industrial plants could subsidize uneconomic location of new industries at the expense of other areas. This might spread unemployment out a little more evenly but not necessarily reduce it.

Part of the trouble, according to some observers, is that people have become less willing to move about for better jobs because of seniority status, nonvested pension rights, home ownership, and similar considerations. It may well be that we will need to modify such immobilizing business and union arrangements in order to minimize personal sacrifices that deter movement. Administration advisers have put "measures to improve the mobility of labor to jobs and of jobs to labor" high on the national agenda.

Many people have trouble finding work today because they lack the necessary education and training for the jobs that become available. The Labor Department has warned that a shortage of trained workers may develop in the years ahead. Indeed, shortages already exist. Longer and better schooling for youngsters will help in the long run. But for older workers who have lost their jobs, some immediate retraining may be necessary to fit them into the changing pattern of work opportunities in our economy.

In an article in *The New York Times Magazine* of April 2, Labor Secretary Goldberg urged action by local communities to meet the retraining problem. He cited the case of Hazelton, Pennsylvania, an area of declining anthracite mining, which, faced with the loss of new industry because of a shortage of skilled machinists, adopted a community-wide training program to provide workers with the needed skills.

Employment for Progress

As the President's revised budget message indicates, federal spending is being enlarged with the view to making use of available manpower to get on with desired public works programs and generally to give an assist to employment opportunities. There are a number of difficulties with putting primary reliance on enlargement of employment opportunities directly through government action. Each new program tends to grow, rather than expire, after employment opportunities in private enterprise expand. We have discovered time and again how easy it is to increase federal spending and how difficult it is to cut back later on. Moreover, larger government spending develops inflationary pressures which lead to higher taxes and hence suffocation of growth of private enterprise—the mainstay of our national strength and productive power.

It is certainly a matter for national concern, as the President and his advisers so frequently have asserted, that we are not making more effective use of our productive power. Habits of slow-motion activity are bad in any country and worst of all in one that wants to hold leadership in industrial progress. We can spread out the social burden of unemployment by shortening working hours and enlarging welfare payments to nonworkers. But these "solutions" give up the objective of full production. They break down self-reliance and breed dependence on the other fellow. The time must come sooner or later when a man discovers that the other fellow is himself. The world owes no one a living. It does offer the natural resources for making a living but only to those willing to exert the effort. In the end all depends on individual initiative in search of personal profit. Governments are powerless without this vital ingredient.

Today's problem of unemployment is a problem of getting people to exert themselves to make jobs—to find useful services to perform for each other. This requires an attitude of eagerness to work on the part of everybody and, above all, a political climate friendly to the business enterprise of creating jobs for others. As our society is set up, we depend on private profit-seeking enterprise to provide not only the bulk of the jobs but also most of the productive investment, the greater part of the tax revenue, and the vast flow of the goods and services that make up the American standard of living and capacity for self-defense. It is a fair prediction that unemployment will remain a problem until political and trade union leaders open their eyes to the simple fact that resurgence of employment opportunities and progress depend on release from the tax-wage squeeze on enterprise. When that becomes understood—when reliance is placed on encouragements to job-making and job-taking—we can move ahead.

Depreciation of Money

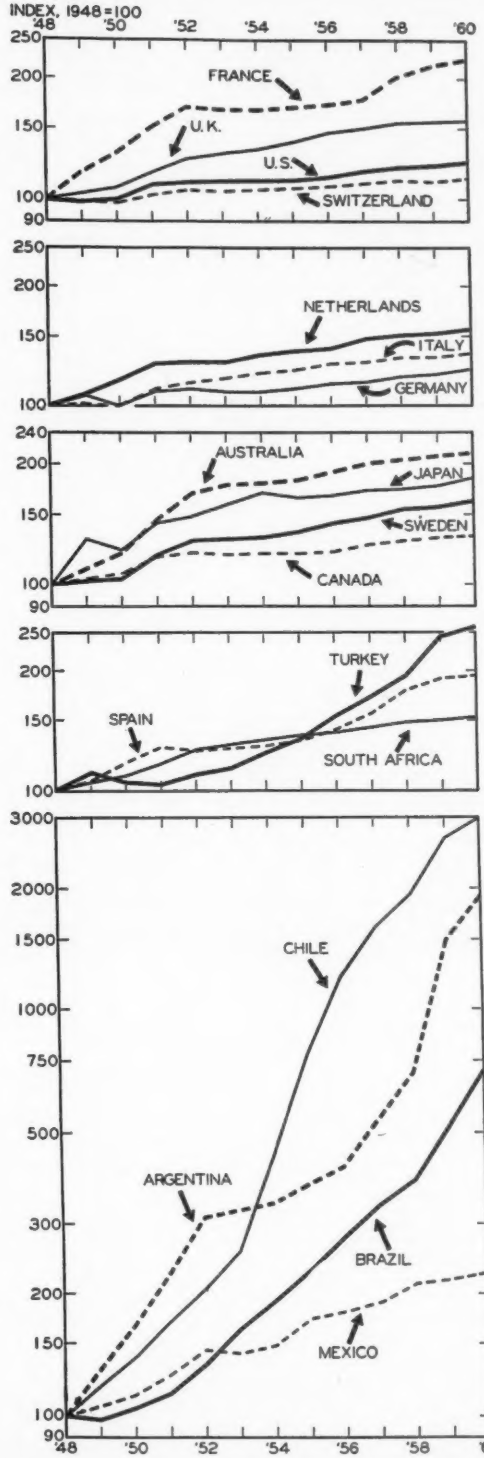
The following table presents our annual review of comparative rates of depreciation of money, in this instance covering 43 countries, 1950-60. The shrinkage of currencies is measured, inversely, by the rise in cost-of-living or consumer price indexes as reported by the various governments. Year-to-year indexes of living costs for 18 countries are shown in the chart.

The U.S. dollar has been shrinking at an annual rate of 2.1 per cent. Belgium, Germany, and Canada are among the industrial nations experiencing about this same rate of depreciation, one that means a loss of half the value of the currency in 33 years. Upward price pressures were measurably greater in 1950-55, but since then have been retarded, in Italy, the Netherlands, Japan, the United Kingdom, and Sweden.

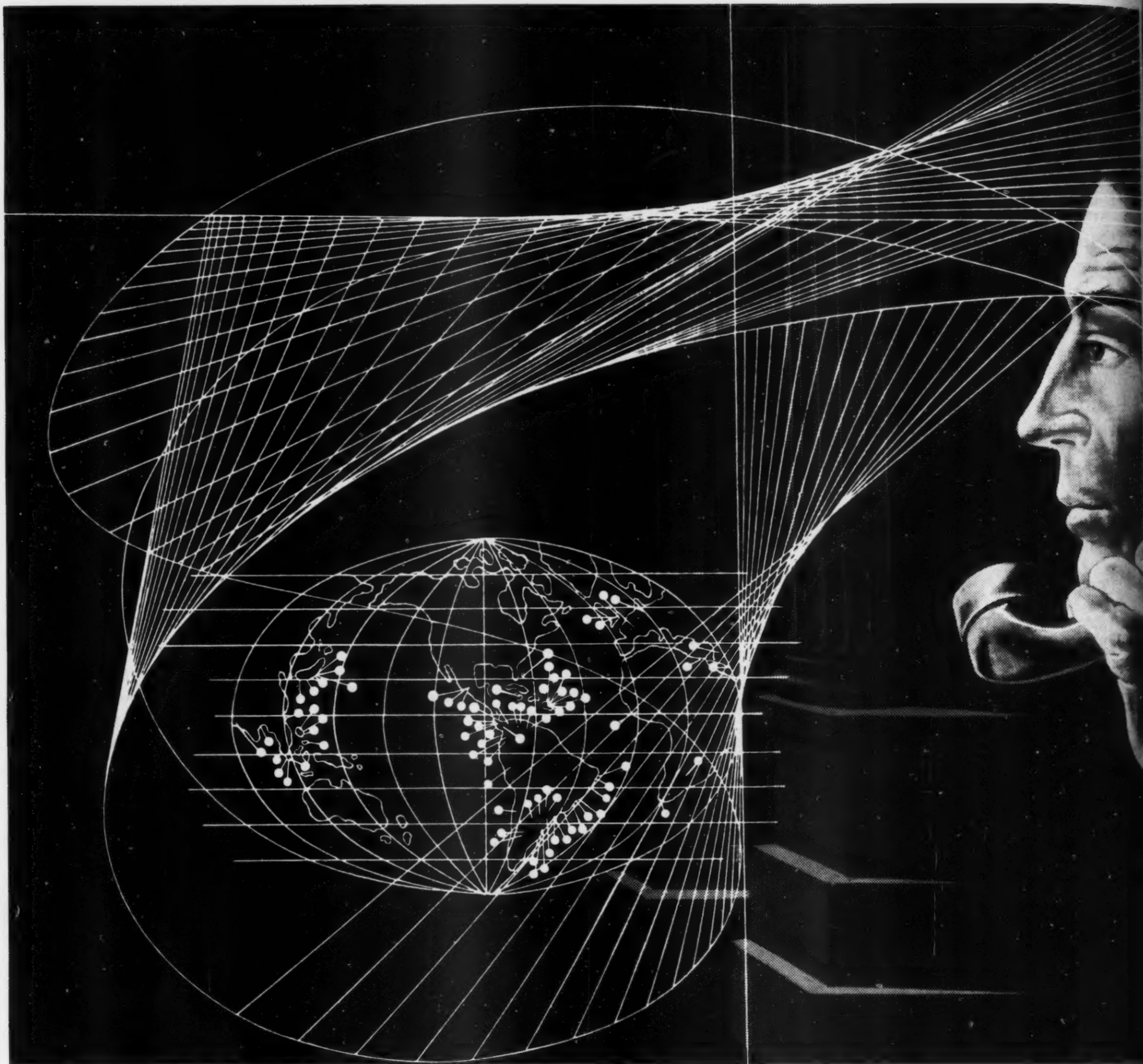
In eight cases, the shrinkage in the value of money exceeded 10 per cent per year compounded, with results of shaving anywhere from two-thirds to 99 per cent of the buying power of the currency unit over the decade.

	Indexes of Value of Money			Annual Rates of Depreciation (Compounded)		
	1950	1955	1960	'50-'55	'55-'60	'50-'60
Philippines	100	104	94	—0.8%	2.1%	0.7%
Ceylon	100	96	93	0.8	0.6	0.7
Portugal	100	101	92	—0.2	1.9	0.9
Guatemala	100	91	91	1.8	0.0	0.9
Switzerland	100	92	87	1.6	1.1	1.4
Ecuador	100	83	84	3.7	—0.2	1.8
Belgium	100	90	83	2.1	1.7	1.9
Germany	100	91	82	1.8	2.2	2.1
India	100	106	81	—1.1	5.1	2.1
Lebanon	100	103	81	—0.6	4.7	2.1
United States	100	90	81	2.1	2.1	2.1
Canada	100	88	80	2.5	1.9	2.2
El Salvador	100	78	77	4.8	0.2	2.5
Pakistan	100	90	75	2.0	3.6	2.8
Italy	100	82	75	3.9	1.8	2.9
Netherlands	100	85	74	3.2	2.6	2.9
Denmark	100	83	71	3.7	3.0	3.3
South Africa	100	79	71	4.6	2.1	3.4
Ireland	100	79	69	4.7	2.5	3.6
Japan	100	74	67	5.8	2.0	3.9
United Kingdom	100	76	67	5.2	2.6	3.9
New Zealand	100	75	65	5.6	2.7	4.2
Norway	100	74	64	5.8	2.8	4.3
Sweden	100	76	64	5.3	3.5	4.4
Spain	100	88	61	2.6	7.1	4.9
Austria	100	67	60	7.8	2.1	5.0
Finland	100	80	58	4.3	6.3	5.3
France	100	76	57	5.3	5.5	5.4
Greece	100	64	57	8.6	2.2	5.4
Australia	100	66	57	8.0	3.0	5.5
Colombia	100	81	52	4.0	8.6	6.3
Iran	100	68	51	7.4	5.7	6.6
Mexico	100	65	49	8.3	5.2	6.8
Peru	100	71	47	6.6	7.8	7.2
Turkey	100	78	41	4.8	12.2	8.6
Israel	100	39	32	16.7	3.9	10.8
China (Taiwan)	100	45	28	14.9	8.8	11.9
Uruguay	100	59	21	10.0	18.4	14.3
Brazil	100	45	15	14.6	20.3	17.5
Argentina	100	44	9	15.8	27.6	21.7
Paraguay	100	14	8	33.0	11.1	22.8
Chile	100	18	5	29.1	28.6	26.4
Bolivia	100	7	1	40.5	34.6	37.6

NOTE: Depreciation computed from unrounded data and measured by reciprocals of official cost-of-living or consumer price indexes.



Cost-of-Living Indexes for Selected Countries, 1948-60



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